

# Premium finance guidelines using Principal<sup>®</sup> life insurance products



1. We will consider premium financed cases whose primary purpose is long-term life insurance needs, including well-documented business and estate planning needs.
  - a. This long-term need must be at least equal to the applied-for face amount.
  - b. Minimum estate size (for married couples) for any estate planning premium finance case needs to be \$10,000,000.
  - c. Proposed insured (youngest insured in case of survivorship coverage) must not be over age 70.
2. Our Alternate Surrender Value Rider (ASVR) for Principal Indexed Universal Life Accumulation II<sup>SM</sup> **is not available for premium finance cases.**
3. Unless an exception is approved and a separate acknowledgement of understanding is completed, the premium finance arrangement may not be funded with a Principal life insurance policy that is classified as a Modified Endowment Contract (MEC).
4. We do not have a list of approved premium finance vendors. We will not consider a premium finance case if the premium finance vendor is a) currently or in the past associated with a hedge fund or other investor group in the business of purchasing life insurance policies for investment, b) currently or in the past associated with misuse of premium financing as a financial tool, or c) a foreign lender.
5. The terms of the premium finance loan must be reasonable and not create an incentive for the life insurance policy to be transferred to the lender in satisfaction of the outstanding loan.
  - a. The loan must be a full recourse loan with the life insurance policy serving as collateral to the extent of its cash value. This means that the insured or policy owner must assign marketable securities or other “hard” assets in addition to the life insurance policy as collateral for the loan. If a letter of credit (LOC) serves as collateral, we will require a copy of the terms of the LOC. LOC terms need to conform to reasonable commercial practices. The LOC must also be issued by a creditable financial institution acceptable to Principal.
  - b. The loan terms must require that loan interest be paid (and not accrued) by the policy owner each year.

6. We require:
  - a. The use of our Producer Checklist (DD 849PF)
  - b. The use of our current standard collateral assignment form (DD 168).
  - c. The insured and policy owner to **review and** sign our Premium Finance Acknowledgment of Understanding form (DD 2558).
  - d. The policyowner **and insured (if different)** to affirmatively acknowledge **to the producer and through completion of the Acknowledgement form** that they have an exit strategy from the premium finance arrangement during the life of the insured, including a source of outside funds to repay some or all of the premium finance loan if policy cash value is not sufficient.
  - e. A copy of any spreadsheet or other non-Principal illustration used in the premium finance sales process.
7. In addition to the special premium finance considerations listed above, Principal underwriters will consider all medical, financial, and other factors (individually and collectively) normally associated with underwriting a life insurance policy. Guaranteed Issue and Simplified Issue under our Multi-Life Business Underwriting Program are not available for premium finance cases.
8. Upon request and direction from the lender, Principal will provide a “low point” letter to the lender on or around the policy issue date and/or subsequent policy anniversary dates. Such letter shall project the low point of the cash surrender value of the policy subject to the premium finance arrangement for the upcoming policy year based on policy guarantees and assumptions requested by the lender and agreed to by Principal.



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